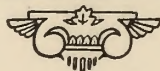


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THESIS

FINANCING METHODS IN PHILANTHROPIC ORGANIZATIONS

by

Julia Grace Lamont

(B.B.A. Boston University 1927)

submitted in partial fulfillment of
the requirements for the degree of

Master of Business Administration

1935

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INTRODUCTION

In the United States at the present time there are thousands of organizations being operated for philanthropic purposes and not for profit. To understand these organizations it is well to know the meaning of the word "philanthropic"; i.e., the entertaining of active good will towards one's fellow men or promoting the welfare of men. In other words these organizations offer SERVICE in one form or another to mankind.

In a recent study by John Wells Farley, General Chairman of the Boston Emergency Campaign of 1934, the one hundred participating organizations were grouped as follows: relief, hospitals, leisure time, health, children, institutions, handicapped and miscellaneous. Service in these various groups is offered to the public. What is true in Boston is true more or less in other cities for Boston is a good example of the various groups of philanthropic organizations because it has always been known as a very charitable city.

"Compared with most of the other cities in this country, Boston has been a wealthy city. It is comparatively old. There has been much inherited wealth and many individuals with normal incomes above normal expenditures. Individualism has been strong and resistance to change more accentuated than in other

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parts of the country.

"The result has been the establishment and growth of a larger number of charities, and a lesser degree of joint action than almost anywhere else.

"The functions performed by the charities here are not materially different from those carried by the charities in other of our older cities, but, for the population served, there are probably considerably more institutions, each in a more water-tight compartment."
(1)

Field for Organizations

The question "Why are these organizations necessary?" immediately arises. In the intricacies of living today, life is hard. Some people are able to combat these complications alone; others need help in one form or another. "In both its economic and social life the American community has undergone profound transformation during the last two decades. On the social side, among other phenomena, there is the significant disappearance of personally administered charity. In its place has developed specialized philanthropic work carried on through voluntary welfare organizations and administered by trained technicians." (2)

During these years of depression there is no question in any one's mind of the needs for the work carried on by

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- (1) Report to the General Committee--Considerations and Recommendations Regarding Raising Funds for the Private Charities of Boston by J. W. Farley, Page 7
 - (2) Corporations Contributions to Organized Welfare Services by Pierce Williams and Frederick E. Croxton, Page 27

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these agencies and the ever-increasing demand for the services offered. Bailey B. Burritt, General Director of the Association for Improving the Condition of the Poor of New York, very aptly refers to this:

"It has become increasingly clear that the social services of the community - that is, the social services of organized groups either industrial, governmental or those of charitable corporations - not only are increasing but must continue to increase if we are to maintain an industrial civilization. Individualism alone will not suffice as an answer for social services."(1)

If, as has been proven, philanthropic organizations are increasing, it is necessary to have an efficient business management or financing of them. There are many problems facing them which do not arise in industrial corporations. It is the purpose of this thesis to deal with financing methods pertaining to philanthropic organizations. It must always be borne in mind that they are non-profit making. In fact, operating receipts do not cover operating expenses. How the difference is handled will be dealt with in detail later in this essay.

Functions of Officers

An organization of any size is incorporated. It has a Board of Directors, which is composed of interested citizens

(1) Who Should Pay the Bill? by Bailey B. Burritt, The Survey, May 15, 1932

who receive no recompense for any services given. For the present purposes it is necessary to know the functions of the president, treasurer and finance committee. These vary slightly in the different organizations but the examination of abstracts from one set of by-laws will be sufficient to obtain a general outline of the required duties.

"ARTICLE VII, Section 1. The President shall preside at the various meetings of the Board of Managers. He shall appoint the various sub-committees of this Board, the Committees of Management of the Branches and designate the Chairmen thereof. He shall, under the direction of this Board, sign leases or other contracts of the Association unless another officer is specifically designated by this Board for this service. He shall be ex-officio a member of all Committees of this Board, including the various Committees of Management.

"ARTICLE VII, Section 4. The Treasurer shall have charge of all the funds of the Association, which he shall keep in such Banks or Trust Companies as may be designated by the Finance Committee. He shall pay all demands against the Association upon vouchers properly certified. He shall be ex-officio a member of the Finance Committee."(1)

(1) Boston Young Men's Christian Association - Constitution and By-Laws, Page 19

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"ARTICLE VI, Section 2. The Finance Committee shall have charge of the financial affairs of the Association, and shall present at the annual meeting of the Board of Directors the budgets adopted by the Board of Managers showing the expected income and expenditure of the various Departments and Branches of the Association for the ensuing year. This Committee shall exercise supervision over the business and financial operations of all the Branches and Departments of the Association, shall have the power to buy and sell securities for the Association, shall provide for a thorough audit of the Association accounts by an independent accountant at least once a year, and for the adequate bonding of employees of the Association. They shall keep all securities in a safety deposit vault under the name of the Association. Access to the securities shall not be had at any time by less than two of those who have been designated for this duty by the Finance Committee. The Finance Committee shall also act as a committee on ways and means."(1)

As these offices are filled by men who are receiving no recompense and who are in other lines of business, there are paid employees who carry out the duties necessary for operating. The General or Active Secretary represents the President and the Assistant Treasurer is the paid employee repre-

(1) Boston Young Men's Christian Association - Constitution and By-Laws, Page 17

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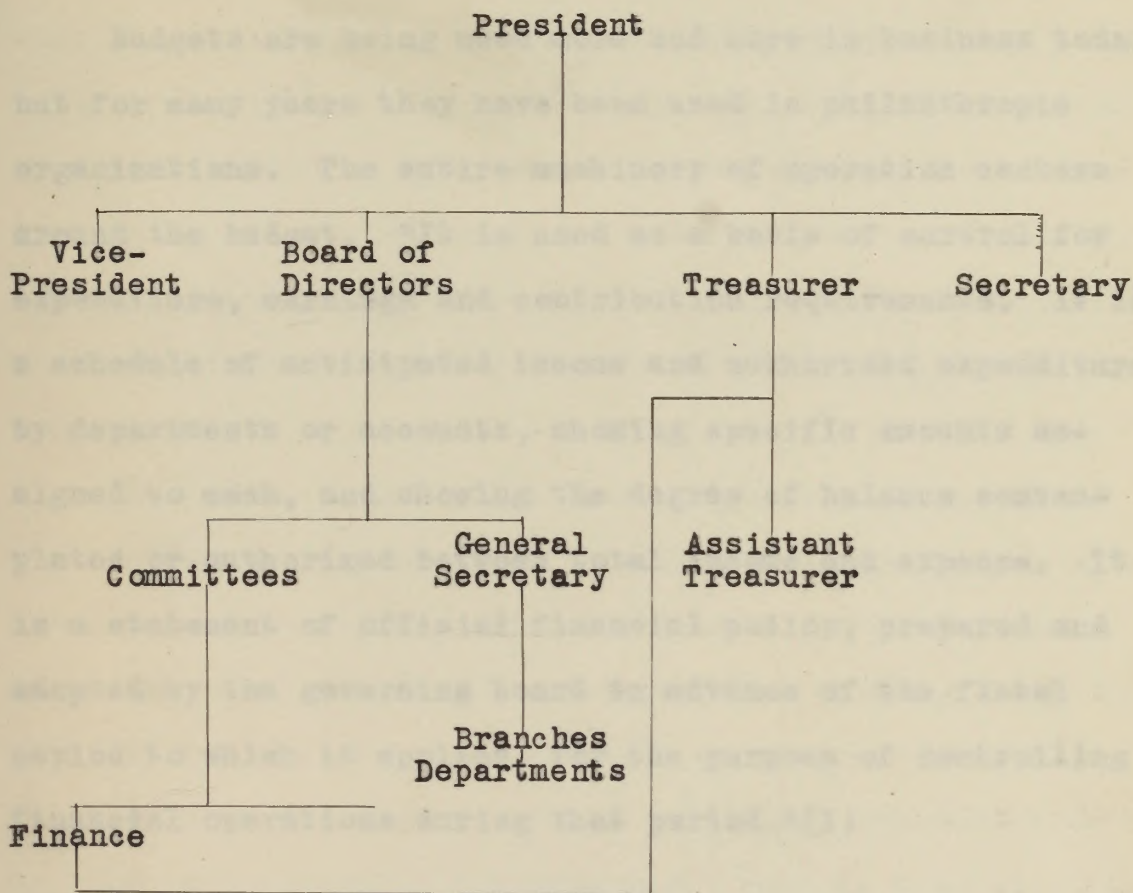
senting the Treasurer. Upon these two employees rest the responsibilities pertaining to the working operations of the organization.

"ARTICLE VII, Section 5. The General Secretary shall be charged with the direct administration of the affairs of the Association and the carrying out of the policies of the Boards. He shall be a member ex-officio of all standing and special committees of the Boards and of the Branches, and of all organizations within the Association. He shall, in conference with the Committee whose work is involved, nominate for appointment by the Board of Managers all Secretaries for the Departments of the Association, and the Executive Secretaries of Branches, and shall supervise the employment of all other assistants. He shall assign their duties and supervise their work. He shall have the custody of the corporate seal and shall attest all contracts. He shall render reports to the Board of Directors and Board of Managers concerning the activities of the Association and its business operations."(1)

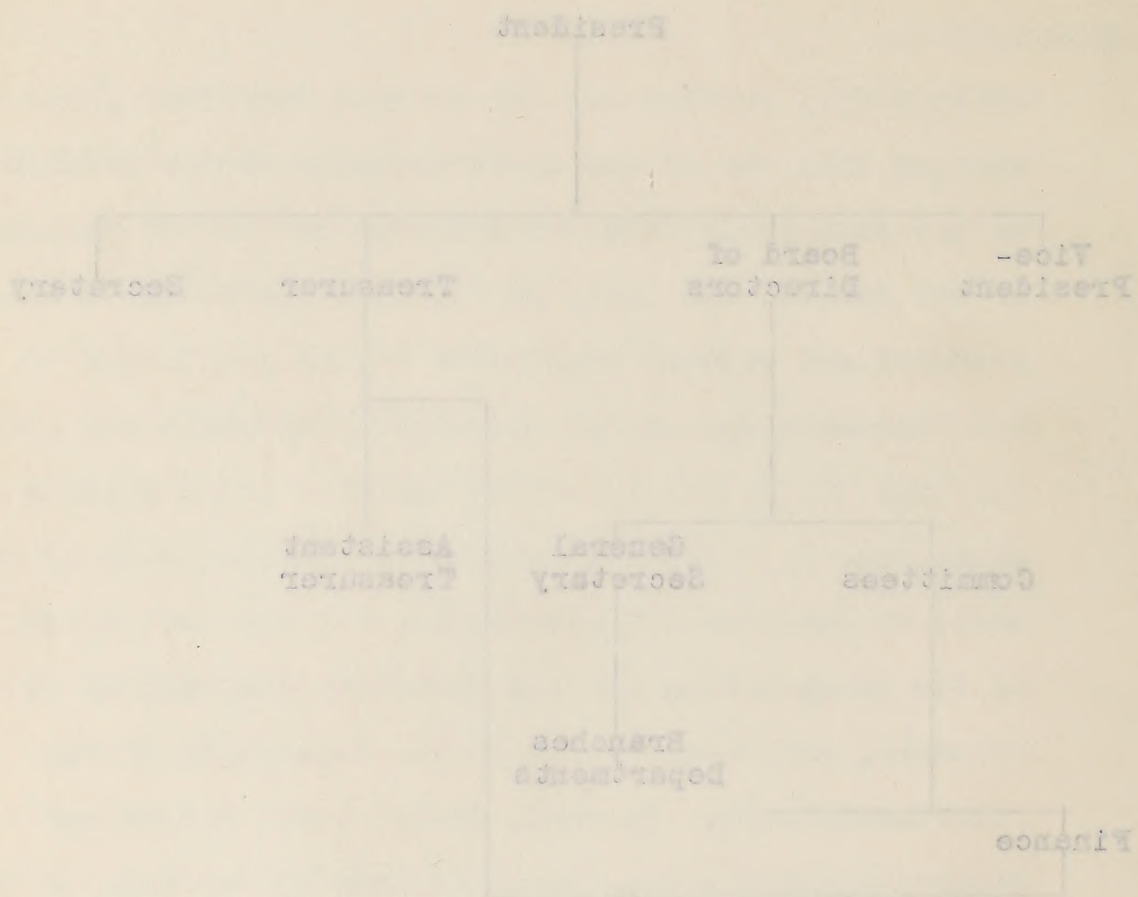
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Organization Chart



Organization Chart

BUDGETS

Budgets are being used more and more in business today, but for many years they have been used in philanthropic organizations. The entire machinery of operation centers around the budget. "It is used as a basis of control for expenditure, earnings and contribution requirements. It is a schedule of anticipated income and authorized expenditures by departments or accounts, showing specific amounts assigned to each, and showing the degree of balance contemplated or authorized between total income and expense. It is a statement of official financial policy, prepared and adopted by the governing board in advance of the fiscal period to which it applies, for the purpose of controlling financial operations during that period."(1)

Preparation

A good budget requires time and "careful estimates based upon previous years' experience, tempered by the immediate business situation".(2) Unless the service offered by the organization is seasonal, the budget is usually prepared for a year. This seems to be a good standard of time for working out the budget. It is a measurement that can be used over a period of years, which affords opportunities for comparisons.

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- (1) Handbook of Association Business Administration by G.S.Bilheimer and James W. McCandless, Pages 8 and 9
 (2) Accountants' Handbook by E. A. Saliers, Page 842

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(1) Handbook of Association Business Administration by C. C. Billheimer and James W. McCord, Pages 8 and 9
(2) Accountants' Handbook by R. A. Sellers, Page 642

Before preparing the budget a chart of accounts should be drawn up. For a small organization it is very simple, becoming more detailed as the organization grows. In a large organization the chart of accounts is divided and subdivided in order to "provide for a satisfactory co-ordination of finances with functions and with service units, and to facilitate control".(1) If a uniform chart of accounts is followed from year to year, it allows for comprehensible comparisons.

The budget is generally prepared by using the actual figures of the year closing, together with any changes which are being contemplated. It is advisable that the head of each department prepares his departmental budget, using the chart of accounts for his line-up. Of course, in order to do this, he must know his actual income and expense in detail for the year closing. The department head is best able to review the actual figures, make any necessary changes and insert allowances for additional programs or work.

The departmental budgets are then presented to the General Secretary, who is the link with the Board of Directors. He, in turn, prepares a summarized statement of the anticipated income and expense and the amount of the contribution requirements. The departmental budgets and the summary are then presented to the Budget Committee or, in many instances, the Finance Committee, and are carefully reviewed

(1) Handbook of Association Business Administration by
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(1) Handbook of Association Business Administration by G. S. Blithner and James W. McGonigle, Page 12

by them and returned for any necessary revision.

After the final draft has been accepted by the Budget Committee it is presented to the Board of Directors for approval. Copies of the approved budget should be given to the Treasurer and Finance Committee and departmental budgets to each department head. "Once the budget is adopted, generally it becomes the chart of appropriations for the year and is not subject to adjustment in any major essential without the authority of the Board of Directors. Some organizations interpret this rule very rigidly, permitting no overexpenditure of any single item without Board authorization. In other cases small overexpenditures within any single departmental or sectional budget are tolerated, providing there have been sufficient savings in other items in the same departmental budget to balance the total. A deliberate overexpenditure of any item, particularly if the amount be considerable, requires special authorization, in which case effort is made to find budget appropriations which can be correspondingly reduced or income estimates advanced in order that the entire budget shall be held at balance. Requests for such authorization and adjustments should be made through the chief executive, as in the presentation of the original budget estimate."(1)

(1) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Page 25

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(1) Handbook of Association Business Administration by G. E. Ruppel and James F. McLaughlin, Page 22

Income

In all philanthropic organizations income is derived from three sources:

1. Fees. The fees are the earnings from operations, which may be room rentals, memberships, privilege charges, lectures, camp charges or any receipts obtained as part of the operations of the organization.
2. Contributions. Contributions are that part of the income which is received from people interested in the work. No consideration whatever is given for the gifts.
3. Endowment Income. The endowment income is interest received from permanent funds, derived from legacies left by interested citizens and which have been set up in conservative investments.

Expenses

The expenses fall into three classifications, also:

- 1) Regular, 2) Unusual, 3) Emergency.

The regular expenses are those pertaining to the general operating of the organization. They include such items as salaries, heat, light, cleaning, postage, telephone, clerical work and the many other things which occur monthly or at certain intervals.

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ry" added. For example, due to the extreme cold weather coal bills of the last two winters would have the element of unusualness in them for they would be so much higher than previously.

Emergency expenses are those which have not been anticipated at all, which occur without any warning. A breakdown of the power plant that would require a large expense for replacement is an example, - also, the first days of the depression when distress became prevalent. The many, many demands for help from welfare organizations would all cause emergency expenses.

The budget is prepared on the basis of covering all regular expenses and may have a reserve to take care of some of the unusual and perhaps an emergency expense. However, when demands are being made and made for help as in the depression crisis of today other means, outside those covered by the budget, must ensue.

Duties of Budget Executive

The General Secretary or Budget Executive should at all times keep a close watch upon the actual expenses of operations and make comparisons with the budget. He must call attention to overexpending and ascertain why income does not compare with budget estimate. He must at all times know the financial "feeling" of the organization. "Continual vigilance is an inevitable price of secure financial administration."(1)

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Operations

The budget is of "little value unless faithfully followed".(1) It should be broken into parts, generally monthly, according to regular occurrences of receipts or expenditures. It should be flexible for "flexibility is essential in order that advantage may be taken of any favorable or unfavorable condition that may develop. The budget is practicable only to the extent to which it is applied to the control of operations and expenditures. It is a standard with which actual results are measured. It should be the chart that governs the course of the business. The department heads receive copies of their departmental budgets and the General Secretary receives copies of all budgets. Monthly comparison should be made between the actual results and the budget, and the causes of variation should be analyzed."(2)

The Budget Executive should at all times watch the surplus or deficit. "An increase in operations may diminish both expense and income, but the essential matter is the relation between expense and income. When this barometer shows 'stormy' it indicates the necessity of vigorous action to reduce expenditures or to increase income. There are times when some features in every budget must unavoidably be exceeded. Excesses are justified when it is apparent that

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- (1) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Page 27
 (2) Phases of Budgetary Control by Frank S. Hecox, Journal of Accountancy, September 1929, Page 190

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(1) Handbook of Association Business Administration by C. C. Miller and James W. McGinnis, Page 27
(2) Phases of Budgetary Control by Frank S. Hoek, Journal of Accountancy, September 1929, Page 190

increased expenditures will bring equivalent or more than equivalent additional income. The authority to approve extra-budget expenditures resides with the executive and the board, and not with the department heads. There must be flexibility in a budget, but it must be carefully safeguarded. Often extra expense in one account is balanced by deductions or savings from other accounts."(1)

From time to time and especially towards the close of the fiscal year, it is advisable to prepare statements of the actual income and expenditures to date and the estimated figures for the balance of the year. This statement will give a fairly accurate picture of the final financial standing. If the result of this study shows a probable deficit, it may mean curtailment of certain expenditures or if, on the other hand, a surplus is indicated, expenditures which have been deferred may be included in operations.

Benefits

It can readily be seen that budgets and budgetary control is a definite and essential part of the financing of philanthropic organizations. "Budgetary control plans responsibility, co-ordinates individual departments, regulates expense according to income, and is a yardstick with which to measure actual accomplishment. It acts as a safety signal in pointing out unfavorable trends."(2)

(1) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Page 29

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- (1) Handbook of Association Business Administration by
 U. S. Skinner and James W. McGonigle, Page 22
 - (2) Phases of Budgetary Control by Frank S. Hook, Journal
 of Accountancy, September 1928, Page 190

CONTRIBUTION REQUIREMENTS

Undoubtedly the phase of financing which is associated more than any other with philanthropic organizations is the need for and securing of contributions. The need is essential and understandable when a little thought is given to it. The Handbook of Association Business Administration simply and clearly gives the reasons why contribution income is required. The reasons as applied to the association is equally applicable to other phases of philanthropic work.

"1. The income from other sources is inadequate to meet ordinary operating expenses. Rarely has an association enough income" from operations and endowment "to meet its ordinary operating expenses. This is because the services provided for members and others cost more than members pay for them. Although the amount received from membership dues and fees is often increased by net earnings from dormitories and other service features and by income from invested funds, in the great majority of associations the total from all these sources of income is inadequate, and must be supplemented by contributions. It is true that the average amount paid by members in dues and fees has increased in recent years, but costs of operations have increased proportionately and services provided for members are more costly. Therefore, the necessity for contribution income remains.

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"2. The Association is not a commercial enterprise: it is a character-building non-profit-making agency. Most of those served by it are unable to pay the full cost of the services provided. If larger fees were charged, the cost would be prohibitive to most members. In order that its services may be available to those who need them most, without respect to ability to pay, the Association seeks contributions.

"3. The Association furnishes privileges and facilities for the use of many who are not members and for the general public, for which no charge is made. It is difficult to segregate actual costs of all the free services rendered, but careful calculations indicate that in many associations the total actual cost of such services is fully equal to the amount annually obtained in contributions."(1)

Attendant Benefits

In addition to the reasons why contributions are needed from the financial viewpoint there are other benefits.

"1. Reasonable appeals to the public for support, if wisely presented, serve to kindle and sustain public interest. Such appeals create a larger sense of responsibility on the part of the public than it would if the association were entirely self-supporting.

(1) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Pages 83 and 84

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Individuals who contribute are more likely to be interested in the work than if they did not.

"2. Annual appeals for contributions strengthen the loyalty and zeal of the laymen who make the appeal. An annual contribution campaign is a valuable training field for board and committee members and other laymen. In telling others about the Association they deepen their own interests, and enrich their own lives.

"3. The necessity for contribution income stimulates sound financial management. An organization which must look to contributions for a part of its support is more likely to be careful about expenditures than the one which has an income sufficient for all purposes. It will strive more earnestly to obtain maximum results from every dollar expended."(1)

Determination of Amount

Contributions are secured in two general ways: an organization raising its own contributions and that sharing in a community chest. If the organization is assuming the responsibility of raising its own contributions the determination of the amount to be raised yearly rests upon the Finance Committee and the Board of Directors. When the budgets are submitted for review by the Board, the amount of contributions required for balancing is shown. The Finance Committee,

(1) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Page 84

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(1) Handbook of Association Methods and Principles by G. B. Bilheimer and James W. McDonnell, Page 64

if the budget has been presented to it, carefully reviews the deficits of the various departments to ascertain the items contributing to the contribution needs. This Committee must know the general trend of business, the "financial feeling" of the community, and present conditions necessary for the raising of money. If the Committee feels that the amount required is too large it must determine at what points the budget expenses can be cut. It must decide which phases of the work can be reduced somewhat without affecting the program materially.

In addition to the above there are a number of factors which one way or another affect the raising of contributions for an organization. Some of them are:

"Favorable

1. An efficient, industrious, friendly, consecrated secretarial staff.
2. Board members and other laymen of recognized standing in the community who give time and money and conscientious leadership.
3. Sound business management, including particularly the evidence of audit, an adequate system of financial reports, and prompt acknowledgment of contributions.
4. A building maintained as well and attractively as the age of the building and the resources of the association will permit.

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4. A building maintained as well and attractively as
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association will permit.

5. Fair and considerate treatment of all employees.
6. Friendly co-operation with churches and other social agencies of the community.
7. Willingness to receive and act upon suggestions and criticisms, including prompt attention to complaints.
8. A public relations policy that keeps the constituency and the entire community informed of the development and success of the association's program, organization, and needs.

"Unfavorable

1. An employed staff that is, in whole or in part, inefficient, indifferent, lazy, or contentious.
2. Lay officials or representatives of poor community standing or with little vital interest in the Association, or whose personal lives and conduct are out of harmony with its purposes.
3. Activities poorly planned, inefficiently conducted, inadequate in scope, beyond the reach of the needy; a program that fails to impress the community as necessary and effective.
4. Poor business management, including: slow payment of bills; accumulation of debts; inadequate, infrequent and inaccurate financial statements; lack of audits; and sharp business practices with dealers and others.

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4. Poor business management, including: slow payment of bills; accumulation of debts; inadequate, incorrect and inaccurate financial statements; lack of audits; and sharp business practices with dealers and others.

5. A dirty, ill-kept, unattractive, poorly used building.
6. Lack of friendliness, neglect of strangers, needy young men, and others.
7. Inadequate publicity program or one which over-emphasizes and misrepresents certain aspects of the association's activities."(1)

Securing of Contributions

For an organization raising its own contributions there are three general methods of obtaining them:

1. Personal Solicitation
2. Letter Solicitation
3. Campaigns

Some organizations use one method, some use all. In the latter instance a campaign is the main means of securing contributions and the personal and letter solicitation methods follow.

The work of obtaining a list of names of people who are interested in the work of an organization and who are charitably inclined will not be handled in this paper. It is sufficient to say, though, that a productive list of people represents time and work.

(1) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Pages 86 and 87

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(1) Handbook of Association Business Administration by
G. S. Blininger and James W. McGinnis, Pages 55 and 57

Personal Solicitation

Personal solicitation is undoubtedly the oldest method of securing contributions. Under this method members of the Board of Directors and members of the staff assume the responsibility of securing gifts from certain people according to specified lists. In recent years in some organizations personal solicitation is used as a means of "follow-up" after a campaign. Generally it is the duty of a staff member to approach people, who, for one reason or another, were not seen in the recent campaign. "Advantages of the plan of personal solicitation are that assignments usually are confined to the most competent persons; that, aside from time expended, costs are comparatively small; and that the effort causes a minimum interruption of service."(1)

Letter Solicitation

Letter solicitation is another method for the securing of funds, generally used by the smaller organizations. Practically all of the advantages pertaining to personal solicitation apply to letter solicitation. In a review of a list of contributors over a period of five or ten years it is noticed that a considerable number give the same amount each year. These people could very easily be solicited by letter.

(1) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Page 89

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(1) Handbook of Association Business Administration by G. B. Gilmer and James W. McCandless, Page 22

Campaigns

From many standpoints, and especially for large organizations, the most desirable and effective method for the securing of contributions is a campaign. "The basic factors in a financial campaign are concentration of the efforts of a large number of workers on the achievement of a given objective within a specified time. Supplemental factors include the creation of a favorable atmosphere of general publicity, stimulation of workers, competition among workers, and sometimes gifts promised on condition that certain objectives be attained within a specified time." (1)

Campaigns or "financial drives were promoted during the Great War of 1914-1918. Edward S. Martin, the author, says they are here to stay. 'One used to think they belonged to the War and would pass when peace came, but they have not passed. There seems to be an abiding quality in them. What could be done by drives, by organized solicitation, in detaching people's money from them was one of the great discoveries of the War. People had given money before that, but until then no one had realized how much they might give if adequately dealt with. When Moses smote the rock and water gushed forth, that was a revelation. Folks did not know it could be done. When the drives smote the American pocket and money came leaping out--that was another revelation. Some revelations have faded and some powers have been

(1) Handbook of Association Business Administration by
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From many observations, and especially for large experiments, the most desirable and effective method for the securing of concentration is a constant. The basic factor in a financial campaign, or concentration of the efforts of a large number of workers on the achievement of a given objective within a specified time, organizational factors include the creation of a favorable atmosphere of general activity, stimulation of workers, competition among workers, and sometimes gifts provided on condition that certain objectives be attained within a specified time." (1)

Comments on financial drivers were presented during the Great War of 1914-1918. Edward A. Tamm, the author, says they are hard to stay. "One used to think they belonged to the War and would pass when peace came, but they have not passed. There seems to be an abiding quality in them. What could be done by drivers, by organized solicitation, in fact, lacking people's money from them was one of the great discoveries of the War. People had given money before that, but until then no one had realized how much they might give if adequately dealt with. When Moses smote the rock and water gushed forth, that was a revelation. Peter did not know it could be done. When the driver smote the Christian pocket and money came pouring out—that was another revelation. Some revelations have faded and some powers have been

(1) Handbook of Associated Business Administration by E. A. Tamm and James W. McLaughlin, Page 99

suffered to fall into disuse, but not this power of drives for money. That goes on working overtime.'"(1)(2)

Bishop William Lawrence in reply to a remark about drives by President Charles W. Eliot of Harvard University says:

"It is a great enterprise that the leader of a campaign for a beneficent cause or institution undertakes: for by his work, supported by others, great sums of money are transferred, by the consent and often glad approval of the owners, from their pockets to a treasury which will work for good through untold generations."(3)

Due to the leadership of Bishop Lawrence successful campaigns have been conducted for the Church Pension Fund (Episcopal), the Episcopal Theological School at Cambridge and Harvard University. From his experience in this field he makes the following comments:

"1. The American people are reasonable and, on the whole, generous. They want to do the right thing; but they must have facts and be reasonably convinced that the cause put before them is worth their while. My rule is never to allow a person to sign a pledge in my presence. If my facts do not convince him, - if the cause apart from the influence of my presence will not bring his contribution, - I do not want it. And if I

(1) Drives and Economy by Edward S. Martin, Harper's Magazine, May 1925, Page 763

(2) Financial Drives by J. Grace Lamont, 1927

(3) An Invigorating Avocation by William Lawrence, The Atlantic Monthly, September 1923, Page 317

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(1) Driver and Secretary of Edward S. Martin, Newport's

Magazine, May 1925, Page 703

(2) Financial Driver by J. Bruce Lambert, 1927

(3) An Investigating Association by William Lawrence, The

Atlantic Monthly, September 1925, Page 317

should get it by undue personal pressure, I shall never succeed with that man a second time.

"2. My second suggestion is that, before you can get support, you must be sure that you have a good cause, one that stands on its own feet. You may fool some people with a poor cause once, but not twice. Indeed, I want nothing to do with a campaign where the money comes so hard and with such personal pressure that the people who have given are a bit irritated that they gave so much, or gave at all. No campaign is a success that does not leave every giver in the mood that he is glad he gave and wishes that he could have given more.

"3. The leaders in the campaign must be the leading alumni of the institution, men of force in the community, if the people are to have a respect for it. They too can do no half job: they have got to turn in for all they are worth. The people judge a cause by the kind of men who support it, and the kind of support they give. Leading men whose names stand on the campaign committees are of little use unless they themselves go and see people. You cannot raise money by circulars, or even letters. The only way to get money is to go out and get it.

"4. Again, the raising before the campaign opens of a sum large enough to defray all the expenses of

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the campaign is a great asset. If you cannot get that first fund, and thus anticipate the total expense, it is a question in my mind whether you have the backing to raise" the campaign goal. "One is a test of the other.

"5. I have never been responsible for a campaign in which the names of the contributors and the amount of their gifts have been made public. Some newspaper men kindly offered to print lists of names in my last campaign, and I answered, 'Not a name.'

"'But givers like to see their names, and it always stimulated others to give.'

"'Some do,' I answered, 'but in the long run those who give do not care about the public knowing it. If they give largely, their mail will be heavy with appeals: if in small figures, they would rather not be published.'

"At the same time I believe that people who are going to make a somewhat large investment in a cause or institution have a right to know, not only what sort of enterprise it is, but who their fellow stockholders are. Hence a confidential list of larger givers may rightfully be shown to those who may consider giving largely. They can thus have an idea as to what their share is, and most men are ready to do the fair thing.

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"6. When the officers of an institution are deciding upon the amount to be raised in a campaign, they should have in mind two considerations. (a) How much does the institution really need? (b) A wise board and its campaign leader will also ask themselves, after a careful study of the field and their plans, what amount, given all the conditions, the people are likely to give. For it is dishonorable consciously to ask for a big figure, in order to get a half or three quarters of it. Large givers, in trying to do the fair thing, give what they think is their fair share of the total asked; and if only half the total is raised, they have a right to feel that they have not been fairly treated. Such methods kill the generosity of generous people.

"7. In the raising of a large sum of money, quite a large amount should be first quietly pledged by those most interested, or who can be interested, so that, when the campaign comes out into the open, it will have a thrust and momentum. The large body of possible small givers then realize that it is a worth-while proposition, that the men and women behind it mean business, and then they join in."(1)

An important factor of a current expense campaign is the time element. It is advisable to have the campaign as early in the fiscal year as possible. If the set goal is not reached the organization is able to use personal and letter solicitation as a further means of securing gifts and to use

(1) An Invigorating Avocation by William Lawrence, The Atlantic Monthly, September 1923, Pages 318 - 322

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The conducting of a campaign requires efficient handling, both internally and externally. There is a great deal of detailed office work, keeping the records up-to-date, and having all contributions credited to the contributors during the actual days of the campaign. This is necessary so that workers can know at all times who have and who have not given. The workers, who are generally voluntary, must be made acquainted with the program and work of the organization so that they can intelligently make the appeals for the contributions.

Bishop Lawrence further comments:

"As to publicity, organization, and methods, the subject is too big for anything more than two or three suggestions. An organization, be it small or elaborate, runs so easily into mechanism that I shrink from it; but of course it is a necessity, and demands high qualities and abilities. The great purpose, however, which is sometimes lost in the whirring of the wheels, is to touch sympathetically multitudes of people; and the best organization is that which, having power and system at

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its heart, keeps its outmost workers as sensitive as the nerves beneath the finger-tips. The humblest solicitor must have the imagination to see his cause from the other man's point of view, and so to present the cause as to commend it from his point of view. Unless the two get together sympathetically, there is no helpful result. The solicitor may get some money, but he has failed unless he has also got the good-will.

"Publicity demands quality, not quantity. Tons of paper and printer's ink are wasted every day. It is worth a week's study to set forth the purposes of the campaign and the definite needs in the most compact and interesting form possible; publicity should be so simple and clear that he who runneth may read.

"With this persistent spirit of optimism must go transparent honesty. I have no use for those campaigners who hold back totals and then throw them on the public at strategic times. The public has come to distrust totals to the great loss of confidence in campaigns. Those who have given and those who are to be approached have a right to be treated honestly, and will respond to honest treatment. People when they have the facts are often finer than we think."(1)

Upon being asked if raising money for an enterprise by the campaign method was hard Bishop Lawrence replied, "Yes,

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it is hard work and a heavy strain; one must be fit and on edge every moment. I hate the job at a distance, but when I once get started, trout-fishing is not in it for excitement. You strike what is called a deep pool; no fish rises, and you go back to camp depressed. You cast into a shallow and almost hopeless pool, and come away with big game. You have all the fun of the gambler and do not gamble."(1)

Community Chests

An outgrowth of the War Chests run during the World War is the community chest, - a concerted effort to raise contributions for a number of charities. "In the subsequent years, there has been a widespread development of this idea in the organization of community chests in about four hundred American cities. The purpose of these chests has been to unify and co-ordinate appeals in a given community for all philanthropic purposes, to collect the funds needed by the participating agencies, and to disburse them to the latter on some agreed basis."(2)

There are two types of community chests:

1. Those which are an outgrowth of social work councils.

This type represents "the mutual interests of the participating agencies and have been organized primarily for the purpose of co-operative effort in raising money".
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2. Those which have the motive centered in the protec-

(1) An Invigorating Avocation by William Lawrence, The Atlantic Monthly, September 1923, Page 317

(2)(3) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Page 90

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- (1) An Investigating Association by William Lawrence, The
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- (2) Handbook of American Business Administration by
J. S. Billinger and James W. McGarvey, Page 70

tion of the donor. This type has been sponsored by the chambers of commerce, or civic clubs, and is felt to give "freedom from participation in many campaigns, either as workers or donors, distribution of giving among more people, and the prevention of waste of funds through the control of agencies".(1)

In any city where there is a community chest there is no compulsion to be a member of it. All philanthropic organizations of the city, and sometimes denominational agencies, are invited to join. The Board of Directors of each one must carefully consider the advisability of either entering or not entering a community chest. In some cities agencies have been members of the chests for a year or two and then withdrawn.

Boston and the Chest

Boston has never had a real community chest. As far back as 1924 the Boston Chamber of Commerce made a study of the expediency of establishing one. Those interested in philanthropic work decided that Boston charities would fair better individually rather than in a chest.

Although the Boston Emergency Campaigns of 1933, 1934 and 1935 were established and have been run due to depression causes, they are really chests and have been operated as such. They may lead to the establishment of a community

(1) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Page 90

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(1) Handbook of Association Business Administration by
E. B. Nicholson and James W. Nicholson, Page 90

chest. Mr. Farley gives some very good reasons for one:

"The change in the method of obtaining contributions is that during the last three years, by means of campaigns, in which all the principal charities joined, contributions have been obtained from business and from the public at large - two sources which contributed very little when the charities sought contributions separately.

"In 1929 and before, a large proportion of the contributions to the charities was from a comparatively small number of large contributors. Most of these were individuals. Thereafter it became impossible or, at any rate, impracticable, to obtain from these donors more than a portion of the amount formerly contributed. This became evident prior to any general Campaign.

"A further analysis of the figures available shows, among other things, that many of the charities never obtained as much from contributions as they have received in the past two years, and that in many cases at least the quotas for Campaign purposes have been materially in excess of the amounts that some of the charities ever received from contributions."(1)

Quotas

Each organization participating in the chest is required to furnish a statement of the anticipated operating

(1) Report to the General Committee--Considerations and Recommendations Regarding Raising Funds for the Private Charities of Boston by J. W. Farley, Pages 8 and 9

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income and expenses and the amount of contributions required to balance the budget. In the case of the Boston Emergency Campaigns early in November of each year the organizations participating have furnished statements of ten months actual and two months estimated income and expenses for the current year. In addition, they furnish statements of any anticipated changes for the next year. Some such system is in force wherever there are chests.

The amount of the quota given to each organization is based upon the statement submitted. The total of all the quotas determines the amount of contributions to be raised by the chest. The chest committee must consider from all angles the advisability of asking for the determined amount of contributions required.

If the community chest drive reaches its goal, the full amount of the quota will be received by each participating organization. If the goal is not reached, each organization receives its share of its quota according to the proportion of the amount raised to the goal; i.e., if \$100 000 is a given quota and only 60% of a chest is raised, the organization with that quota will receive 60% of it or \$60 000.

Benefits and Limitations

Community chests have both advantages and disadvantages. The most important of these are:

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Benefits and Disadvantages

Community chests have both advantages and disadvantages. The most important of these are:

Advantages

1. Economy of operation
2. Efficiency of organization
3. Increasing the total giving of a city
4. Increasing the number of givers, "thus diffusing the sense of responsibility for charitable relief throughout the community"(1)
5. Unifying of programs for community welfare
6. Saving of time of agency employees
7. Elimination of frequent solicitation

Disadvantages

- 1."Lessening and gradual destruction of the interest of the individual giver in any of the participating agencies"(2)
2. Fixing public attention on chest rather than on the organization doing the work
- 3."Boards of Directors made subservient to the Boards of Control of Chests, which become a sort of super government"(3)
4. Stifling progress of program
5. Elimination of capital improvement
6. Hindrance to endowment expansion
7. Leveling tendency of unionism

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7. Fostering tendency of unionism

A few comments on the various advantages and disadvantages will help to clarify any doubts.

It is readily conceded that a chest produces economy of operation and efficiency of organization. Before the establishment of a chest each organization bore the cost of the securing of its contributions. A great deal of work, such as the acquiring of names, was duplication. Then, in one concentrated organization a competent staff of trained workers can be employed.

Under the chest method there is a large increase in the number of givers. In some instances this is the result of a quota being assigned to individuals, firms and corporations. "Strong pressure is brought to bear in each case to furnish the assessed amount. This plan also explains the unusually large number of names upon the list of givers in these cities. It practically compels every man to subscribe; each workingman, as in Liberty Loan 'drives', being called upon to give a certain number of days' pay. Many look upon this method as forced collection or a new form of taxation."

(1) No organization wishes to receive money directly or indirectly under such circumstances no matter how badly it needs contributions. All organizations wish contributions to be given generously and spontaneously.

The unification of programs for community welfare is a very desirable advantage. If two or more organizations are

(1) Is the Community Chest the Best Plan?-Pittsburgh, Pennsylvania, August 1922, Item 11

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Through the generosity of some Boston citizens a study of the agencies participating in the Emergency Campaign was made in the fall of 1934. An expert made the study of each group. It is interesting to note the report of these experts:

"That Boston is not overstocked with social and health services, that demands on the agencies are far beyond their resources and that they should have more, rather than less, money to spend.

"That the work of the agencies neither conflicts, nor overlaps, is well co-ordinated and effective co-operation exists.

"That one or two consolidations of units doing similar or related work are advisable, but the result will be simplification and improvement of service, rather than a substantial financial saving."(1)

In this instance the study showed the need of the organizations rather than a great deal of duplication. It will enable the agencies to strengthen their weak points.

(1) The Boston Herald, January 28, 1935, Page 1

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Joseph Lee, a well-known social worker of Boston, states his views on the immunity of appeals to the contributor:

"Another advantage claimed for the chest is the relief of the philanthropic citizen from the present great number of appeals - it is indeed such comparative immunity from solicitation that to many people constitutes its chief attraction. There is no doubt that this claim is justified so far as appeals from local organizations are concerned. There is under the chest system but one such appeal a year instead of several hundred, and the citizen is enabled to do his home charity for the whole twelve months by the signing of a single check. In this respect a large economy will be effected, but whether to the permanent advantage of the giver or of social work, or to the permanent increase in contributions, may be a question. Personally I believe that from the spiritual and probably from the financial point of view there will be a loss."(1)

When a contributor does not give directly to an organization that person is bound to lose the direct interest he had for it. The Pittsburgh study of community chests stated:

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(1) Shall Boston Adopt the Community Chest? by Joseph Lee,

established the American Red Cross. In a similar way personal devotion to specific causes on the part of other individuals and groups has given us our hospitals, libraries, orphanages, colleges and other institutions for the good of mankind.

"It tends to make a charity a machine, to stifle individual philanthropy, to abridge the rights of both the donors and the agencies."(1)

Mr. Lee says:

"I am unfortunately a beggar for several social organizations. Many of the letters I have received have been worth more than money. Moral support counts for something in this world, both to the giver and to the receiver of it. Under the community chest this spiritual asset, so far as individual organizations are concerned - and all social work is done by individual organizations - would be abolished. There would be no specific purpose in the gift nor any definite encouragement to the recipient.(a)

"Another consideration is that a general drive for all forms of social work, with quotas assessed upon individuals and business organizations and a distribution of the total by a central body according to its opinion of the various needs, assumes, as time goes on,

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(1) Is the Community Chest the Best Plan? Items 1 and 2
(2) Shall Boston Adopt the Community Chest? by Joseph

more and more the semblance of a tax. As one rich man of Cleveland has expressed it: 'I now pay two taxes, one to the city and one to the chest, and have ceased my giving altogether'."(1)(b)

All publicity in connection with the drive is centered on the chest rather than on the individual organizations. This tends to withdraw attention from the work which the agencies are doing.

It is sometimes felt that the Executive Committee of the Chest "is rapidly becoming a super-governing body, determining the scope of the work of the agencies and increasingly exercising authority over them, treating as wards or dependents agencies which, through a successful history of many years, have efficiently and economically conducted their work".(2)

The program work of an organization is sometimes hindered through being a member of a chest. The agency may wish to introduce a new feature into its work, but cannot obtain the necessary funds to proceed with the program. The chest cannot allocate additional money to one organization without providing similarly for all.

Undoubtedly many organizations feel that as members of the chest they suffer the most on account of the hindering of capital improvement and endowment expansion.

(1)(b) Shall Boston Adopt the Community Chest? by Joseph Lee
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(2) Is the Community Chest the Best Plan? Item 5

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Very few chests make any provision for buildings or building improvements or additions. This often handicaps the work. The endowment suffers through the loss of the direct contact with the people. They are more apt to include in their wills those agencies whose needs are being constantly brought to their attention. "Where agencies fail to keep themselves constantly before the public their subscriptions and donations - and by the same token their bequests - fall off. Skillful publicity reaches the understanding, which in time reaches the heart. To stir the sympathy and to keep it means in the end to get the money. Meantime the public comes to know and to appreciate the work. A rich man's charity may be a modest unpretentious act; social service in a democracy must take the people into its confidence. They are its beneficiaries and they must be kept informed of its service."(1)

Another disadvantage of chests is the leveling tendency in that it "penalizes the strong and successful societies by interfering with their initiative and by capitalizing their good name and record of efficiency to the advantage of inefficient organizations, thus enabling these less worthy agencies to be financed and perpetuated through the standing and successful record of the strong and thoroughly tested organizations instead of requiring each to justify its right to exist by developing its own supporting constituency on

(1) Benevolence - Boston Style by Robert W. Kelso, The Survey, June 15, 1924, Page 345

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the strength of service performed. The efficient and more worthy agencies are held back because of the inefficient, and the inefficient and less worthy agencies prosper through the merits of the efficient."(1)

In addition to the above disadvantages, which affect all organizations, there are some which affect certain types. Non-charitable organizations feel that merging their cause in a general appeal where the charity element predominates in the publicity is detrimental to them. Then such organizations as the Boy Scouts and Girl Scouts, which are tied up financially with their national headquarters, are affected. These groups turn over all their contributions to headquarters and operate locally from receipts obtained through concerts, benefits and the like. In chests in which religious organizations take a part there is a creation of unfairness and injustice to people of other faiths who participate in really compelling them to give to religious work programs. It is felt that religious organizations should be financed by their respective followers and their support should not be forced upon the general public.

Sometimes the basis of payment of the quota causes hardships for the organizations. All agencies have certain times of the year when the monthly expenses far exceed the receipts. The chests generally make payments on an even monthly basis. Thus, the amount received may not be enough

(1) Is the Community Chest the Best Plan? Items 3 and 6

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A considerable amount of time has been given to the subject of community chests for at the present time it is one of the biggest items in financing which philanthropic organizations have to consider and deal with. The next few years will require communities to give more and more consideration to them. An understanding of the advantages and disadvantages of chests both for the public and the organizations help in any decisions.

Special Charitable Funds

As well as the above means of securing contributions there is still another - that from special charitable funds and trusts. People of means who are interested in charities sometimes, either during their lives or at their deaths, set up trusts, the income of which is distributed yearly. This method helps to make provision, even after his death, for certain phases of work in which a person was interested. Boston has many charitable trusts and in addition has the Permanent Charity Fund, which was founded for the purpose of helping people who are in doubt as to the proper means of leaving bequests to charity. The Board of Directors of each organization should ascertain the provi-

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Accounting for Contributions

All organizations which receive contributions directly must keep an accounting of them. The first thing to be done is to send an official receipt acknowledging the gift. This should be done promptly. Then it is advisable to keep a card record of each contributor. It is often helpful to have the facts about a person's contributions and to know his giving capacity. By means of a card record the whole story can be ascertained quickly.

Contributions can be handled in two ways on the cash book, either listing the name of the contributor and the amount of each contribution or entering the contributions in total and filing a list showing the detailed information. In smaller organizations where there are not many gifts at once it is perhaps better to enter the detail on the cash book, but where there are many contributions it is advisable to enter them in total.

Whenever an organization conducts a campaign it does not expect to receive all the money at that time. Contributors are generally given the privilege of designating time of payment. At the close of a campaign some people think it is advisable to enter on the books as "pledges receivable" the amount outstanding at that time. Then as payments are made they are credited to that account. It.

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receivables the amount outstanding at that time. Then as
payments are made they are credited to that account. It

is felt that by this method the total of the pledges should agree with the amount of "receivables" on the books. Others feel that pledges should not be entered as "receivables" for it is entering on the books something for which there is no contract. According to law a person making a contribution receives no consideration; therefore, there is no contract. In addition, in large campaigns there are always some cancellations and duplications. If there is a "receivable" account, it would necessitate entries to adjust these items.

The payment of pledges should not be left entirely to the contributors for often they are forgotten. At stated intervals throughout the year a friendly reminder should be sent. This will bring in a number of payments.

In giving to chests the contributors are allowed two methods of giving - designated or undesignated. A person wishing his contribution to go to certain organizations participating designates the desired organizations and the amount to each. It is felt that the designation helps to keep the continued interest in the various organizations. Insofar as the money is concerned the designation will not make any difference to the organizations unless the chest is oversubscribed. "But it should be observed that such designation by the givers, though it may gratify their feelings, will - except in making up a deficit if the chest's total subscription falls beneath the mark which it has set - be of absolutely no effect. The designated gifts, however

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large, will not raise by a single dollar the income of the objects designated above the quota fixed by the budget committee. The privilege of designating will not, under these circumstances, advantageously replace the present power of the giver to choose the object of his gift."(1)

Apportioning Contributions to Branches

In the larger organizations there are often several branches in one city. Sometimes they are financed by the head offices or they may be dependent for operating on receipts and contributions secured locally. Often the local receipts and contributions are not enough to cover the operating expenses of a branch. Then the balance is met by a subsidy from the general board or head office. When an organization becomes a member of a chest all branches of the agency are included. Thus the allotted quota not only covers the work of the central branch but also that of all the branches. All payments from the chest are sent to the general board, which distributes them among the various branches according to the contribution or subsidy requirements of that branch. If the allotted quota is not received it is the general or controlling office which stands the deficit or obtains it from other sources, such as permanent funds.

(1) Shall Boston Adopt the Community Chest? by Joseph Lee
Page 8

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Contacts with Contributors

At certain periods during the year the office of the community chest submits to each organization a list of contributors who have designated that organization. It also includes the amount of the subscription. In this way an agency is able to know who are still interested in its work. In addition to these lists it is sometimes allowable for each organization to obtain the names of former contributors who gave to the chest without designating the distribution of their gifts. With these two sources as a basis each agency should plan to make contacts with their former contributors so as to keep it in the minds of those people. This can be done by sending a booklet or pamphlet about the work, the annual report and even a statement on some new or growing phase of the work.

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PERMANENT FUNDS

The handling of Permanent Funds is another phase of financing which is connected with philanthropic organizations as well as educational institutions. These funds are the result of gifts and legacies. Many individuals specify a certain amount in their bequests to organizations in which they have been interested so that the income from this source will equal the amount of yearly contributions which they had been accustomed to make. Then again they may be particularly interested in some phases of the work and wish to have their interests continued even after death. In such cases restrictions as to the use of the incomes are noted in the wills.

An organization has the privilege of accepting or declining any bequest. Sometimes the terms of the legacy are such that it is not advisable for the organization to accept the gift. It may be recalled that a few years ago a certain Bostonian left bequests to several leading universities on condition that they do certain things to impede the advancement of women's rights. After due consideration some, and perhaps all, of these beneficiaries declined the gifts. It was felt that universities with advanced ideas could not with impunity accept such restrictions.

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For many years there have been two kinds of permanent funds - restricted and unrestricted. In recent years there

has been a third one appearing in the funds of some of the larger organizations; - that of annuities.

Unrestricted Funds

The receipt of an unrestricted gift or legacy obligates the organization in no way. Some organizations use unrestricted bequests for current purposes, but most agencies place them in the endowment or permanent funds.

Restricted Funds

Restricted funds may be limited in several ways:

1. As to principal
2. As to income
3. As to principal and income

A legacy may be left with restriction as to "principal" only, the income to be used for general purposes. In such cases it is generally stated in the will of the benefactor that the gift is to be known as the "John Smith" Fund. This is often done in the form of "memorials".

When a legacy is restricted as to "income" it means that the income is to be used for some special phase of the work or perhaps a portion of it is to be added to principal. In such a case an ever-increasing principal is obtained.

The third form of restriction is noted when both principal and income are restricted; i.e., the "John Smith" Fund, the principal and income of which shall be used for educational purposes.

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Tendencies

Until the last few years restricted legacies seemed to be prevalent. Now the tendency seems to be towards the unrestricted legacy. In some respects the latter is the better kind for it gives an organization the opportunity to use the gifts to the best advantages. Sometimes buildings or capital improvements for which there is no money are very much needed. Many organizations state in their by-laws relative to unrestricted funds that the principal is available only for investment in income-producing securities or for other capital purposes. On the other hand if the unrestricted funds are used too freely for capital purposes it means a decreasing of endowment funds, which in turn lessens a more or less staple income used for operating purposes.

Another disadvantage of the restricted fund is the outgrowth of the purpose for which the fund was given. Organizations have found themselves with funds for which there was no use for the income. Conditions of social and economic life have changed the current needs and wiped out the purposes for which the funds were created. In such cases it has been necessary for the organizations to have the stipulations of the will set aside by the courts.

"Much has been written against the 'dead hand' by welfare organizations, lawyers, fiduciary men, and others. Men and women who desire to give away money are also considering its effect upon coming generations.

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Naturally, they are inquiring into the policy and methods of organizations that are seeking funds.

"Among those things that have been learned in recent years is that there should be constant emphasis upon the necessity for flexible conditions in bequests, trusts, and like funds that will make possible in later years their use in such ways as will best carry out the purpose of the donor and that will protect the association against untoward conditions that cannot be foreseen."(1)

Annuities

A new phase in the field of permanent funds is the annuity agreement, which is a "contract entered into by an organization and the donor of a sum of money by which he or a designated beneficiary receives a fixed income during his or her life".(2) It is principally found in church and missionary organizations and foundations. Some of the larger philanthropic organizations have included "annuities" as part of their permanent funds, but they can only be handled by organizations with substantial funds.

If an organization is interested in granting annuities it must give the whole question careful study and determine the rates to be paid. Most organizations use the McClintock Tables of Mortality. "The risks in such transactions are many and varied and no society should accept them without

(1)(2) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Pages 114 and 105

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(1) (2) Handbook of Annuities Insurance Administration by
O. E. Bittner and James W. McCandless, Pages 114 and 115

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Before issuing an annuity agreement it is necessary to obtain the permission of the state legislature. The form of the "agreement" or "contract" should be legally drawn up.

It is debatable whether anything but "cash" should be received for annuities. Some people feel, however, that whatever is acceptable to an insurance company should be acceptable to an organization. "Amounts received on the annuity basis should be segregated and the funds handled separately from all the other funds of the society."(2)

In order to insure greater safety amounts received for annuities should not be invested in "non-productive assets such as buildings without rental value, and even with rental value real estate is not an advisable investment for such funds".(3) Under no circumstances should the money received from an annuitant be used for current operations of the organization for a liability has been assumed in the writing of the annuity agreement and a reserve should be established to protect this liability.

The interest rate paid by organizations is generally higher than the amount received from the investment. The difference between the amount of the annuity payment and the amount received from investment is deducted from principal (the amount received from the annuitant). Over a

(1)(2) Administrative Policy by Arthur C. Ryan, Annuity Agreements of Charitable Organizations, No. 18, Pages 18 and 25

(3) Actuarial Basis of Rates by George A. Huggins, Annuity Agreements of Charitable Organizations, No. 18, Page 7

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(3) General Basis of Rates by George A. Higgins, Annuity Agreements of Charitable Organizations, No. 12, Page 7

period of years this reduces the principal considerably and sometimes exhausts it altogether. On account of the yearly reduction of principal it is not advisable to issue annuities to young people for over a long period of years the principal would be exhausted and the organization would be paying a liability for which it would receive no return.

At the death of the annuitant the balance of the principal becomes part of the regular endowment of an organization, unless there is some restriction, which is generally a "memorial". This is handled in one of two ways, - either the balance of the principal is set up as the amount of the "memorial" or the net proceeds are held in trust until such time as the interest accumulates to the desired amount. In writing annuity agreements with the "memorial" clause care should be taken to specify which method in the handling of the principal is to be used.

"Why should a philanthropic organization issue annuity contracts?" has no doubt been asked. "By some persons annuity gifts are regarded as a form of deferred legacies. Persons desiring to give during their lifetime a fund which they wish to make available at the time of their death often choose the annuity method. Such gifts, so long as the donor lives, transfer from the donor to the donee all risks and liabilities connected with the safe keeping and investing of the funds given and, in addition, require the donee to make stated annual or semi-annual payments to the donor."(1)

(1) Administrative Policy by Arthur C. Ryan, Annuity Agreements of Charitable Organizations, No. 18, Page 18

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(1) Administrative Policy by Arthur C. Ryan, Annuitant Agreements of Charitable Organizations, No. 10, page 10

Annuities generally pay higher rates of interest than could otherwise be obtained from investments. "Many people would like to give a substantial amount, but are unable to do so, because they must use their income for their living expenses, or to provide for dependents."(1) The annuity takes care of this question. Thus, a prospective annuitant is accomplishing two things in taking out an annuity with some organization, - he is making a conditional gift and placing his investment for a regular and safe receipt of income. "A single advertisement brilliantly written by a great missionary society which calls an annuity fund a conditional gift, explains that it is a safe investment yielding to the donor, or another, a stated income for life, that there are no legal fees, court costs, inheritance taxes, incidental expenses, fluctuations in value, losses by fire or theft to bring anxiety, that the income is sure, because the funds are wisely invested and because no will will be broken and there can be no waste or delay in the settlement of estates; the contracts given are non-attachable, made safe by securities set apart by the society and this conditional gift cannot be dissipated, lost or diverted, and the donor is relieved from care and anxiety as to the investment of money."(2)

The benefit to an organization in the issuing of annuities is the eventual receipt of an endowment gift which

(1) Securing the Gifts by Ernest F. Hall, Annuity Agreements of Charitable Organizations, No. 18, Page 41

(2) Annuities by Charles L. White, Co-operation in Fiduciary Service, No. 14, Page 91

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otherwise might be smaller or in some cases never come to materialization. All large agencies should consider the question of annuities and determine whether or not they should issue them as a means of building permanent funds. This plan has now become a great objective with many organizations and for this reason it should receive serious consideration by all large agencies which have hesitated to adopt it.

Obtainment

The securing of legacies for endowment funds is a slow process. Sometimes it is years after the seed has been sown before the fruit is received. The best people to cultivate for bequests are those who are interested in the agency. These individuals already know something of the work done, the benefits received by the community and the standing of the organization in that community, and have shown their approval in the past by giving for the general purposes of the organization. Under the subject of community chests it has already been shown how detrimental they are to this means of cultivation for permanent funds.

Lawyers and bankers should be cultivated in respect to endowment as assistance is often sought by clients in selecting worthy organizations. If these men have intimate knowledge of the agencies they can advise their clientele intelligently.

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Abstracts of Wills

It is suggested that each organization having endowment funds should keep a "will book" with an abstract of that part of the will pertaining to the organization. This is necessary so that all funds may be set up according to the restrictions. At the first audit after the receipt of a bequest the auditor should ask to see the abstract so that he may satisfy himself that the necessary restrictions are being carried out and to make the necessary notes in his papers for future audits.

Uses of Funds

Permanent Funds are generally used for capital purposes or investment for income. No amounts should be withdrawn from the funds for buildings or major improvements unless there is no other means of obtaining the money and the need is fully warranted. Some conservative members of Boards of Directors do not advocate using permanent funds for such purposes. They dislike to see funds partially depleted after years of working to build them up.

Any organization which has a good sized income-producing endowment fund is fortunate as current needs are thus satisfied and any questioning as to the impairment of the principal is removed. In the figuring of a budget the income from funds is often not considered, but is used to lessen whatever shortages occur in receipts and contributions during the year.

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Allocation of Securities

The handling of the permanent funds is generally one of the duties of the Finance Committee. Funds of an organization should be invested carefully in staple income-producing securities. For years first-grade bonds were considered the only investment for an organization's funds. Today some men consider that an investment should be made in some high-grade stocks as well as bonds, but two things should always be considered in the investing - stability and secureness of income.

When there are a number of restricted funds there are two ways of handling the investments for these funds. The first method, -the older and probably the one used in most organizations-is the allocation of certain securities to particular funds. This plan requires diversification in the investments. When the amounts of the funds are ample this can readily be done, but when they are small it means investments are confined to small lots. A fund of \$10 000 should not be invested in two lots of securities of \$5 000 each, but should have five units of \$2 000 each. This is necessary to insure stability of income. Under the allocation method each fund receives the income earned by the securities of that fund. If there are only two lots of securities in a \$10 000 fund and one lot is not paying interest, the income objective of the fund suffers materially. If, however, there are five lots of securities and one is

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not paying, the income shrinkage is considerably lessened.

The second method of handling securities is the grouping of all the investments together and the disbursing of the income on a pro-rata basis according to the different funds. The purposes of this method are "to render impossible the loss of income on any fund through the failure of a specific investment, or a temporary suspension of income, to avoid carrying small uninvested balances in amounts not adapted to investment, and to give all funds equality of treatment. The investment of all funds under the 'consolidated' is treated as if for a single fund and the funds making up the 'consolidated' share pro-rata in the income therefrom. In this connection it is not infrequent for the institution to realize a profit on its securities, which consist largely of well-secured bonds, frequently bought at a discount and often held until maturity, at which time the full face value is received. Under the 'consolidated' each of the funds shares pro-rata in this increment of principal."

(1) The "consolidated" plan enables each fund to hold its proportionate interest in a more diversified group of investments and to gain a more uniform return of income.

During the depression the income objective of individual funds of organizations using this method has suffered little in comparison with the lessened income and perhaps total loss from investments of institutions with the allocation

(1) Accounting for Universities by Earle L. Washburn
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(1) Accounting for Institutions by Naylor & Washburn

plan. The chief disadvantage to the "consolidated" method is the uncertainty of the amount of income to be received, while under the fixed rate of return method the amount of available income is known provided there is no temporary or permanent default in the investments.

It is considered the best practice to keep separate books of accounting for permanent funds and only control accounts in the general ledger. The funds ledger should have a separate account for each fund, showing the correct name of the fund, the donor, and the restrictions affecting it. It is advisable to keep all funds cash in a separate bank account, segregated from the operating cash. An itemized listing of all the securities making up the investments should appear in the subsidiary ledger with detailed information in respect to rate, due date and periodical income. The books and all data regarding permanent funds should reflect conscientious and painstaking attention. The deserving care given legacies is always appreciated by relatives of the donor and to whom all transactions regarding the bequest should be open for their inspection.

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MISCELLANEOUS

Purchasing

To many people, purchasing in philanthropic organizations may seem of little consequence. It is, however, a very important phase of the operations of such agencies as millions of dollars are expended annually.

No matter how small the agency all purchases should be made by one person or office. In this way an organization usually delegates the duties to a person who has competence and ability in that field. In the larger organizations purchases are very diversified and require a skilled agent. He must know the various markets, the trends, and be able to effectively use the knowledge acquired through his years of service.

Price is not the only factor to be considered by these agents for quality is just as important. It is of extreme importance, however, to obtain the best price possible, but the lowest priced goods are not always the best because the quality of the article may not warrant the price.

A purchasing problem is confronted by organizations which depend more or less on local contributions. Some feel that

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"b. Local purchases strengthen and improve local busi-

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ness and thus react favorably on the organization.

"c. If purchases are made locally, especially from contributors, the latter presumably will continue their subscriptions."(1)

Others feel that "managing boards are trustees of public funds and that they have an obligation to buy wherever they can do so to the best advantage. Furthermore, contributions made to an organization by firms and sellers of commodities, as a rule, constitute only a small percentage of the total contributions to an organization."(2) A good policy to follow is to insist:

"a. That no local merchant be given an advantage over another by reason of his contribution.

"b. That purchasing be on a strictly business basis as to quality, price, and service.

"c. That, wherever other factors are equal, priority be given to local sellers, and particularly those who contribute to the association."(3)

All purchases locally and especially those with contributors "should be done on the basis of the organization's value to the community and not as an exchange of favors".(4)

Treasurer's Control of Cash

The handling of cash is of great importance to agencies. The smaller ones have a very simple system of recording cash;

(1)(2)(3)(4) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Pages 180 and 181

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(1) (2) (3) (4) Handbook of Association Business Administration
by C. W. Billinger and James W. McManis, pages 184 and

the larger ones, however, require a more intricate system. In many organizations where there are several branches cash from all sources is placed in one depository account over which the branches have no control. This is generally called the Treasurer's Cash and functions as a clearing house for the branches for the receiving and disbursing of cash. Under this arrangement each branch receives subsidy checks which are used for the operating expenditures. There are several advantages to this method of handling cash:

1. It clears all receipts through the treasurer.
2. It helps the organization's credit standing with the bank.
3. It equalizes the cash position, - all branches do not have their largest amounts of receipts at the same time of year. By the use of one depository large deposits offset small deposits of another branch.
4. It enables the central organization to know at all times the amounts of the subsidies.
5. It enables the branches to operate more efficiently for they are relieved of the continual watch of the cash position.

Occasionally, due to location or some other reason, all the branches do not operate on the above basis. In such cases they have their own accounts for both the receiving and disbursing of cash.

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Deficits

The word "deficits" is ever present in the treasurer's office of an organization. Due to lack of operating receipts or contributions organizations usually find themselves facing a deficit at the close of a year. One method of taking care of this situation is by means of borrowing. If there is an opportunity to overcome this deficit at some future time loans are justifiable. This is not generally the case, though; there is more often an accumulation of deficits over a period of years until they are a sizable amount. One way to clear these deficits is to transfer unrestricted permanent funds to the general surplus, either through the sale of securities or cash from the funds account. This transfer is in the form of a "grant" and entails no liability.

It is not advisable for any organization to think that the yearly deficits can be cared for through the funds, for it allows an organization to shift the responsibility of breaking even in its operations. "Grants" should only be used as last resources to care for deficits. If too many of them are issued from funds an organization may find its permanent funds severely impaired.

Depreciation

Most organizations have no reserve for depreciation. Any ordinary necessary replacements are included as part of current operations. If depreciations were taken care of yearly, either directly or through a reserve account, it

would necessitate asking the public for more contributions as it would increase the expenses. Major expenditures for replacement, such as boilers, are generally handled as a "grant" from permanent funds. Of course, when replacements are included in current operations, there is a further contribution requirement, but only to the extent of the amount expended that year.

Interest

In many institutions there is the item of interest, which may be on mortgages or on current loans. Many organizations with buildings continue to carry large mortgages--caused through the lack of funds to pay them. The needs for the buildings were so great that the Boards raised what money they could and obtained a mortgage to cover the balance, with a hope that a way would be made to clear it. Although buildings are derived from gifts, in one form or another, the lack of enough gifts to clear the building of its mortgage falls into the current expenses in the form of interest which must be taken care of there.

Interest on loans rightly appears as part of current operations for it is lack of operating income and contributions which causes the loan.

Any organization having no mortgage interest and able to operate without interest on loans has a great advantage over those with the above encumbrances.

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Maintenance

All organizations with buildings have maintenance charges, which usually are for heat, light, cleaning, water and insurance. Some agencies, especially the smaller ones, have accounts for these as such; others distribute these items as used to the various departments. In large organizations the latter is the better way for it enables each department to get a true cost of operation. Methods of distributing maintenance is on the same bases as would be used in business, - the square or cubic footage.

In addition to fire insurance there are other kinds, - employees' compensation, public liability, power plant and burglary. Distribution of these items is according to departments affected.

Taxation

Taxation for organizations is a mooted question. In practically all states tax exemption, to at least some extent, is allowed for religious and philanthropic organizations. It is felt that these organizations are helping to assist the government in the fulfillment of its public functions and, therefore, should be free from taxation on property used for organization purposes. A test case recently in Massachusetts was that of the Board of Assessors of Springfield against the Springfield Y.M.C.A. It was decided that the "association was exempt as to all of its property in spite of the use of part of its equipment for

residential and restaurant purposes, on the ground that the dominant purpose of the association in maintaining these features was in line with its fundamental social and religious purpose and was not commercial".(1)

New York recently ruled that philanthropic agencies would be taxed. As a result of this, the revenue will be increased and tax rates decreased.

But where will the agencies get the money to pay this tax? It means the cutting of the services offered by these agencies or an endeavor to secure more money from contributors. This shifts the "tax burden to the shoulders of the contributors and is contrary to public policy and the basic principle of taxation. The levy does not then fall on contributors in proportion to their ability (which is the sound basis of American taxation), but in proportion to their generosity, public spirit, and devotion to the social or religious service for which the institution has been created."(2)

Although philanthropic organizations may be tax exempt it is necessary for each agency to file a return annually with the Board of Assessors of each city or town in which the corporation owns real estate, stating location and value, the book and face cash value of securities, and a statement of income and expense.

This report in turn reaches the Department of Corpora-

(1)(2) Handbook of Association Business Administration by G. S. Bilheimer and James W. McCandless, Pages 423 and 421

tions and Taxation of the Commonwealth.

Surplus

The "Surplus" account appearing on the balance sheet of organizations usually applies to capital accounts. It must be remembered that agencies are non-profit-making and therefore would not have "earned" surplus. "The surplus account represents the excess of the assets over the liabilities and endowments. The endowments are more in the nature of accountability than a liability, that is, the administration is accountable for the care of the funds and their application to the purpose for which they were created." (1) The greater part of the "Surplus" account represents the excess amount of contribution income over expense and the accumulation of gifts.

Reports

Each incorporated philanthropic organization is required to file annually with the Department of Public Welfare of the Commonwealth a combined statistical and intricate financial statement, together with a printed copy of the annual report or consolidated balance sheet. The Department, over protests, still asks for the financial resume on a "cash" basis. This system is very workable with organizations of lessened activities, but becomes very burdensome with large institutions whose financial set-up is based on "accrual" practice.

(1) Accounting for Universities by Earle L. Washburn, Page 98

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Report

Each incorporated philanthropic organization is required to file annually with the Department of Public Welfare of the Commonwealth a combined financial and statistical financial statement, together with a printed copy of the annual report or consolidated balance sheet. The Department, which acts for the financial review of all over projects, will also for the financial review of all "other" basis. This system is very workable with organizations of lessened activities, but becomes very burdensome with large institutions whose financial set-up is based on "accrual" practice.

In an endeavor to secure contributions from special foundations or trusts, as the Permanent Charity Fund, it is very necessary to present a financial statement with such detailed statistics as will merit their consideration. The Council of Social Agencies, in making their many studies, often seeks the files of organizations for detailed reports of a varied nature.

Whatever reports are prepared and presented to these various places an endeavor should be made to make them simple and understandable, and, so far as possible, answer the questions requested.

In philanthropic organizations the entire financial operations hinge on the budget, which should be carefully prepared and followed. Many phases of the financing, as purchasing, interest and maintenance, are comparable with those of business, but there is one which is pertinent to the philanthropic agency - the securing of contributions. In all agencies only parts of the cost are covered by part-income production, which result in a proportion of the operating expenses of the organization being in excess of the operating income. Contributions are therefore required as the link between expenses and income.

Among the assets of a great many business concerns is what is known as the reserve fund, which represents the surplus

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the questions requested.

SUMMARY

In a comparison of the financing methods of a business organization with those of a philanthropic organization the most essential fact is the purpose of each: the business organization operates for profit, which is the excess of income over expenses, while the philanthropic organization operates for service and is a non-profit making agency.

A business organization deals with purchases of raw materials, manufacturing costs, sales and administrative expenses, and sales. The amount received from sales should include all the necessary costs plus profit. In some business concerns the budgetary control method is used as a guide to accomplish the purpose - profit.

In philanthropic organizations the entire financial operations hinge on the budget, which should be carefully prepared and followed. Many phases of the financing, as purchasing, interest and maintenance, are comparable with those of business, but there is one which is pertinent to the philanthropic agency - the securing of contributions. In all agencies many parts of the work are non-income or part-income productive, which result in a proportion of the operating expenses of the organization being in excess of the operating income. Contributions are therefore required as the link between expenses and income.

Among the assets of a great many business concerns is noted an item of investments, which represents the purchase

of securities, of either their own or other organizations, through the medium of excess profits, the objective of which is gain for themselves or stockholders. The permanent fund assets of philanthropic organizations, however, represent gifts or legacies, the income from which is used to lessen the link required by contributions in the balancing of the operating expenses and income, with the consequent result of further service to mankind. Permanent funds of philanthropic organizations are divided into three classes: unrestricted, restricted and annuities. The value of a sizable unrestricted permanent fund cannot be stressed too much as it is the outstanding resource upon which the organization may depend for the absorption of its operating deficit.

It has been the purpose in this paper to present the essential phases pertaining to financing of philanthropic organizations, to show the scope of the work and to acquaint others with some idea of the importance of the project.

THE BOSTON YOUNG MEN'S CHRISTIAN UNION

Statement of Assets and Liabilities

March 31, 1928

ASSETS

Land and Building (including cost of New Building site)		\$1 666 500 98
Securities		862 652 38
Prepaid Interest		58 34
Furniture and Fixtures		799 97
Country Week Automobile (Depreciated Value)		411 66
Prepaid Insurance		2 972 57
Accounts Receivable		1 155 97
Inventories (merchandise)		623 68
Cash:		
In Bank and on Hand	\$2 494 04	
In Hands of Trustees	<u>53 715 10</u>	<u>56 209 14</u>
		<u>\$2 591 384 69</u>

LIABILITIES

General: Fund	\$1 594 760 87	
Endowment	<u>283 669 85</u>	\$1 878 430 72
Special Funds:		
Country Week:		
Fund	\$59 072 75	
Endowment	<u>69 300 03</u>	\$ 128 372 78
New Building Fund	48 054 04	
Otis Norcross Fund	20 000 00	
Charles Tidd Baker Fund	11 291 68	
William H. Hervey Fund	10 944 45	
Harriett Kingsbury Walker Fund	10 100 00	
George F. Parkman Fund	9 887 00	
Rides for Invalids Fund	8 877 18	
Kate M. Morse Fund	5 000 00	
Henry Southworth Shaw Fund	2 000 00	
Charles Edward Cook Memorial Fund	2 000 00	
Evelyn A. Whitney Fund	1 222 00	
Lewis Allen Drake Fund	1 000 00	
William and Mary Dennison Fund	1 000 00	
Life Membership Fund	<u>555 00</u>	262 304 13
Accounts Payable		855 00
Mortgage Payable		440 000 00
Interest Accrued on Mortgage Payable		8 058 62
Contingent and Special Reserves		<u>1 736 22</u>
		<u>\$2 591 384 69</u>

THE NEW ENGLAND WATCH AND WARD SOCIETY

Balance Sheet

February 29, 1932

ASSETS

Endowment Funds Assets:

Investments- Schedule A-2

Bonds \$140 760 62

Stocks 56 011 62

\$196 772 24

Cash in First National
Bank of Boston awaiting
investment

2 679 09

Total Endowment Funds Assets

\$199 451 33

General Fund Assets:

Cash:

In checking accounts
at First National

Bank of Boston \$ 1 785 59

In savings accounts:

Franklin Savings Bank 3 471 88

Boston Five Cents

Savings Bank 1 201 88

In office 50 00 \$ 6 509 35

Furniture and fixtures

290 00

Total General Fund Assets

6 799 35

Total Assets

\$206 250 68

FUNDS

Endowment Funds-Schedule A-1

\$199 451 33

General Fund:

Balance at March 1, 1931 \$ 6 804 38

Deduct-Excess of expenses over
income for year ended February 29,
1932-Exhibit B

5 03

Balance at February 29, 1932

6 799 35

Total Funds

\$206 250 68

THE NEW ENGLAND WATCH AND JEWELRY SOCIETY

Balance Sheet

February 29, 1932

ASSETS

Endowment Funds Assets:	
Investments - Schedule A-2	
Bonds	\$140,780.82
Stocks	56,011.48
	<u>\$196,792.30</u>
Cash in First National Bank of Boston	
Investment	2,579.08
	<u>\$199,371.38</u>
Total Endowment Funds Assets	
General Fund Assets:	
Cash:	
In checking accounts at First National Bank of Boston	\$ 1,755.59
In savings accounts: Franklin Savings Bank	2,471.88
Boston Five Cents Savings Bank	1,201.98
In office	50.00
Furniture and fixtures	230.00
	<u>\$ 5,658.45</u>
Total General Fund Assets	
Total Assets	<u>\$205,029.83</u>

LIABILITIES

Endowment Funds - Schedule A-1	
General Fund:	
Balance at March 1, 1931	\$ 2,504.33
Deficit - Losses of expenses over income for year ended February 29, 1932	1,800.00
	<u>\$ 704.33</u>
Total Liabilities	<u>\$205,029.83</u>

THE NEW ENGLAND WATCH AND WARD SOCIETY

Statement of Income and Expense

Year Ended February 29, 1932

Income:

Income from investments:

Interest on bonds \$7 480 89
Dividends from stocks 3 070 75
Interest on savings bank
and regular bank deposits 203 49

\$10 755 13

Donations

3 180 50

Total Income

\$13 935 63

Expenses:

Salaries and wages \$ 9 608 00
Secretary's and investigators'
expenses 2 544 49
Rent and light 614 38
Telephone and telegraph 237 45
Stationery and supplies 192 61
Postage 120 97
Printing and mailing annual report 268 00
Miscellaneous office expense 206 96
Auditing 75 00
Directors' meetings 72 80

Total Expenses

\$13 940 66

Excess of Expenses over Income-

Exhibit A

\$ 5 03

THE NEW ENGLAND NATURAL AND VARIOUS SOCIETY

Statement of Income and Expenses

Year Ended February 28, 1908

Income:	
Income from investments:	
Interest on bonds	\$ 7,480 00
Dividends from stocks	3,070 75
Interest on savings bank	
and regular bank deposits	203 49
	<u>\$10,753 15</u>
Donations	7,100 00
	<u>\$17,853 15</u>
Total Income	
Expenses:	
Salaries and wages	\$ 9,000 00
Secretary's and investigators' expenses	2,844 40
Rent and light	814 30
Telephone and telegraph	337 45
Stationery and supplies	192 41
Postage	150 97
Printing and mailing annual report	200 00
Miscellaneous office expenses	200 00
Auditing	75 00
Directors' meetings	75 00
	<u>\$15,940 00</u>
Total Expenses	
Excess of Income over Expenses	\$ 1,913 15
Exhibit A	

HOME FOR AGED MEN

Report of the Treasurer

January 1 to December 31, 1933

Statement of Income--Receipts and Expenses

Receipts:

Income from General Fund:			
Interest and Dividends	\$23	426	35
Income from Permanent Funds	23	126	41
Income for general purposes from Special Funds	10	698	59
Income from Outside Trustees:			
Elisha V. Ashton Trust	\$3	100	00
Horace A. Latimer Trust	233	00	
Charles A. Kennedy Trust	243	85	3 576 85
Miscellaneous Income		856	87
			<u>\$61 685 07</u>

Expenses:

Expenses of maintaining the Home:			
Services and wages	\$14	841	26
Groceries and provisions	7	236	58
Clothing and dry goods	259	49	
Repairs and furnishings	2	824	17
Doctors, medicines and funerals	1	563	93
Fuel, light and water	2	816	27
Telephone and fire alarm	229	02	
Sundries	828	36	
Insurance	850	79	
	\$31	449	87
Service and expense out- side visitor and inves- tigator chargeable	2	943	26
			<u>\$34 393 13</u>
Payments to Outside Beneficiaries	\$25	422	00
Payments for Outside Beneficiaries for Special Purposes	96	75	
Services and expense of outside visitor and in- vestigator chargeable to Outside Aid	4	414	91 29 933 66
Special Outside Aid		250	00
Clerical Expense, etc.	2	500	00
Printing annual report		132	12
Advertising expense		319	80
Mount Hope Cemetery expense		761	50
Miscellaneous expense	2	267	65
			<u>70 557 86</u>

Excess of Expenses over Income \$ 8 872 79

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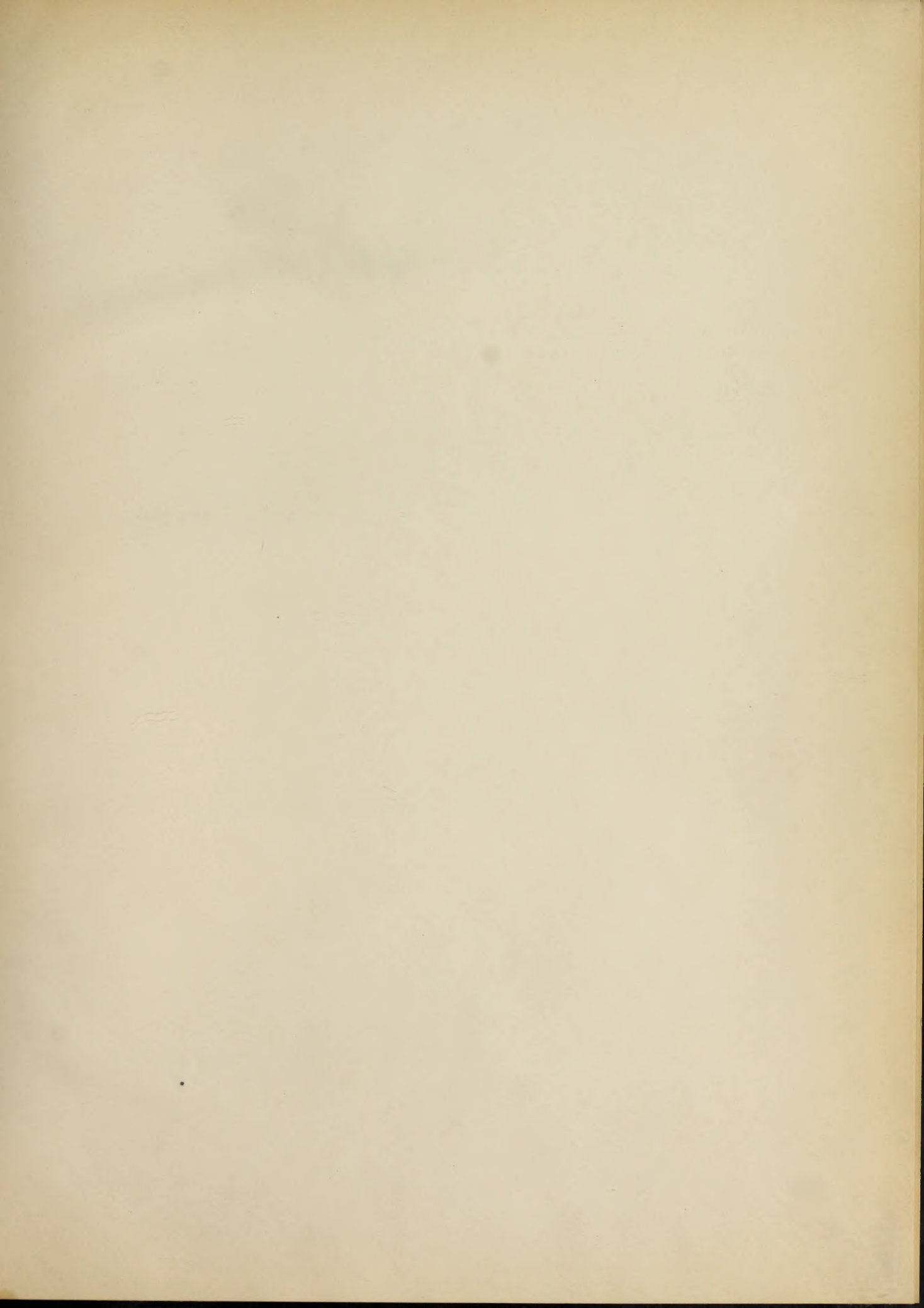
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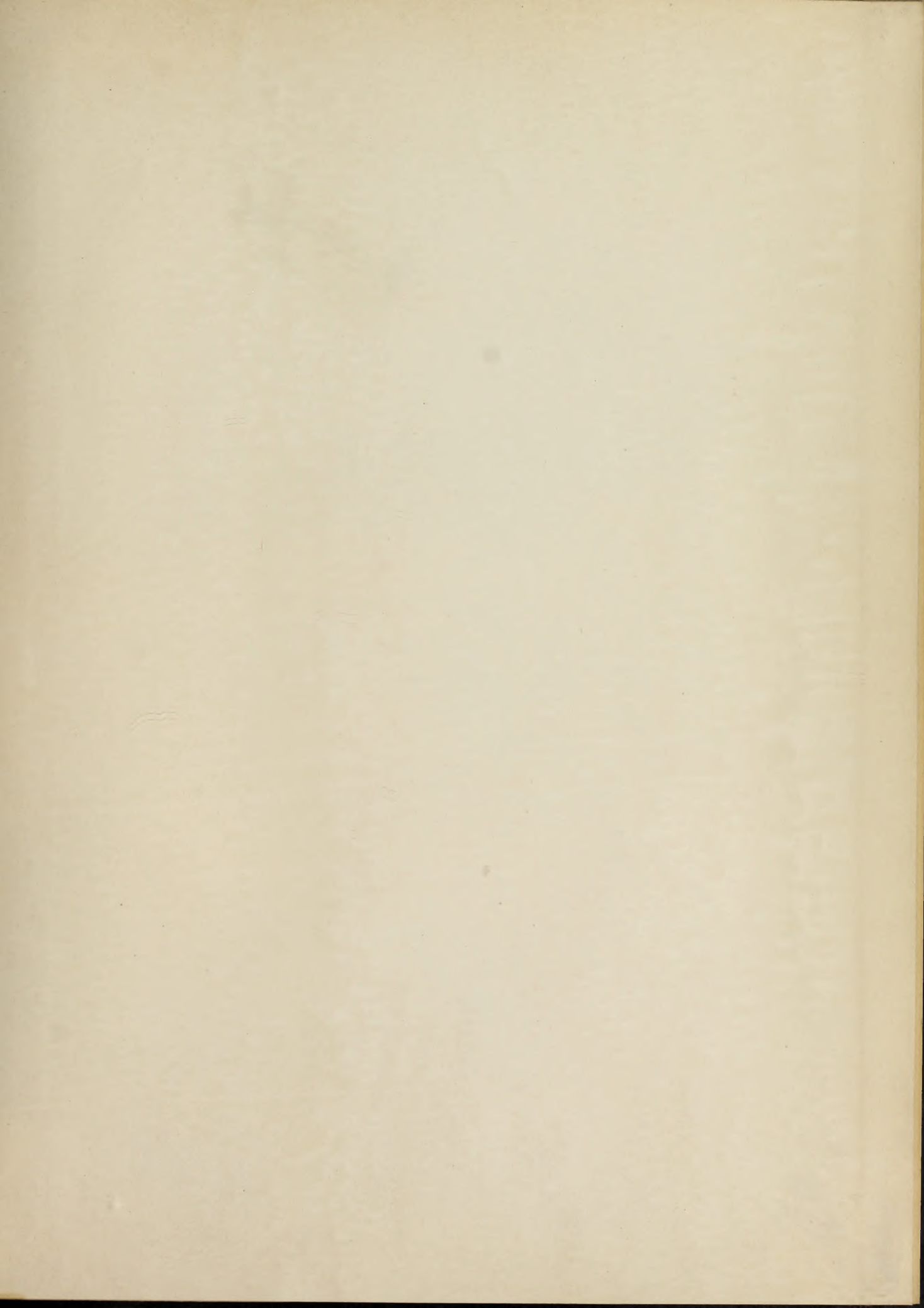
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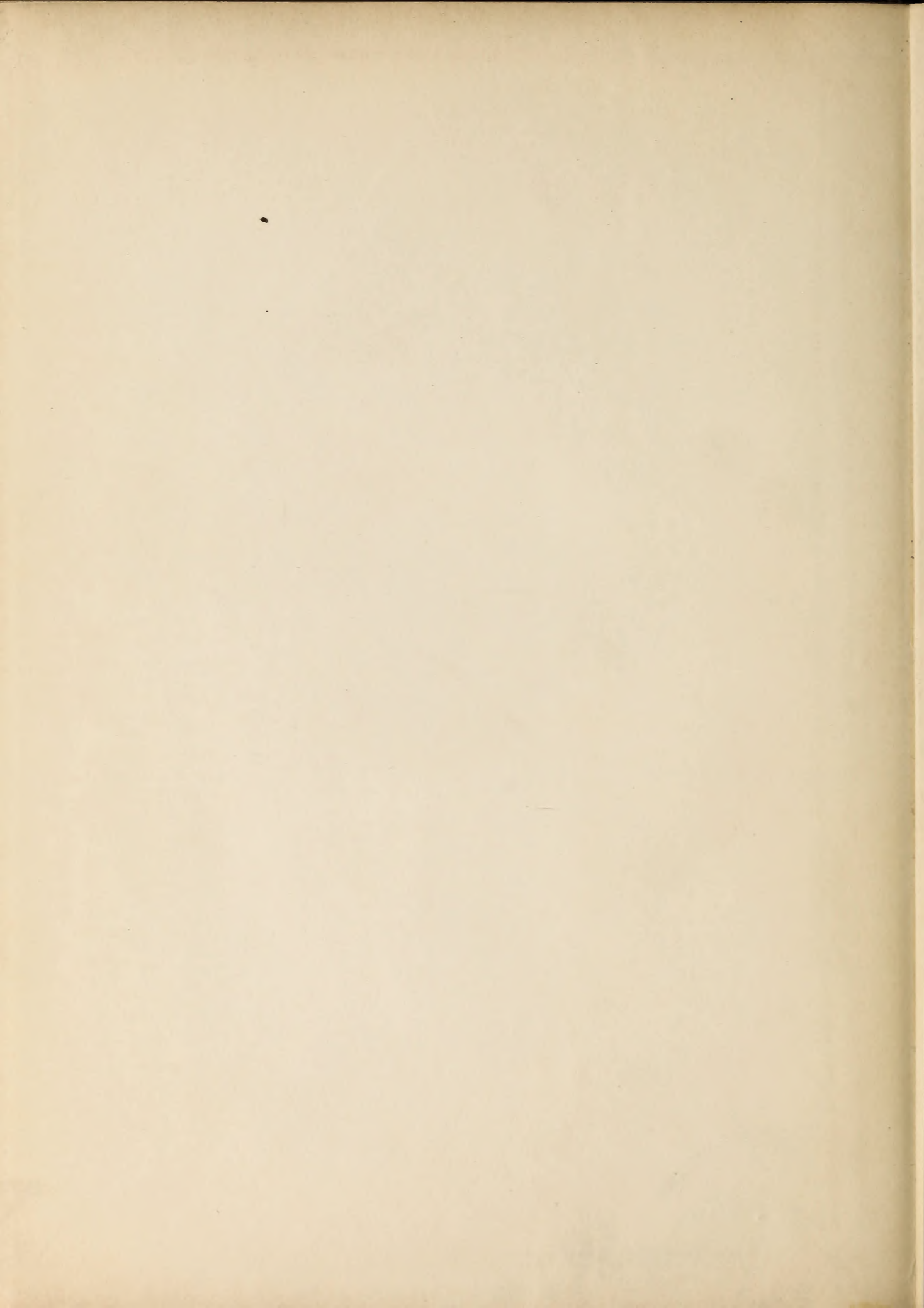
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